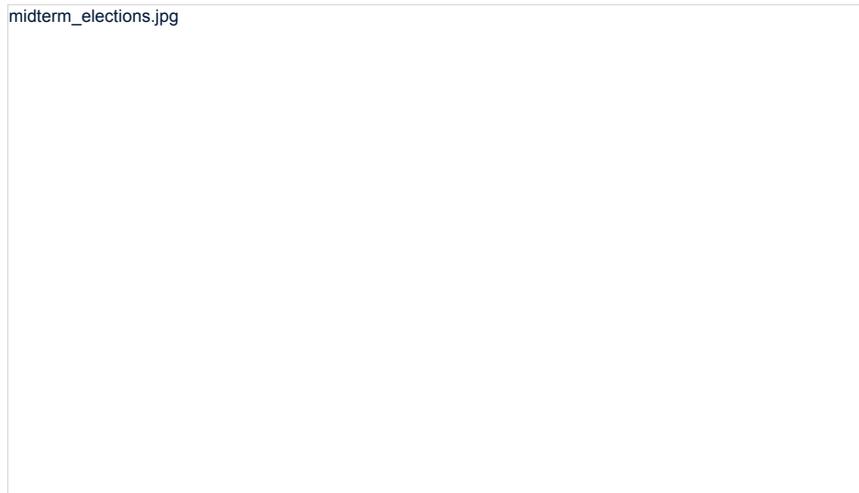




## States approve numerous tax-related measures in the Midterm Elections 2014

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Several states approved tax-related measures in this midterm election. These include a constitutional ban on income tax, an income tax cap, and a millionaire tax.



### Tennessee: No income tax

Voters approved Amendment 3, a prohibition on state and local taxation of payroll or earned personal income. The measure prohibits any state or local tax measured by payroll or earned personal income by way of amending Tennessee's constitution.

Though Tennessee still taxes individual income in the form of interest and dividends, the state was already one of several without a tax on wages and salaries. This is one reason why it ranks so high, number eight, in the individual income tax component of the *Tax Foundation's* 2015 State Business Tax Climate Index (Index).

A little more than a month before the election, a *Knoxville News Sentinel* article quoted State Sen. Brian Kelsey, R-Germantown, the sponsor of the resolution putting Amendment 3 on the ballot, as hopeful. He reasoned that "[n]ot having a state income tax has already brought jobs to Tennessee, and being able to tell employers we'll never have one is going to bring even more jobs."

On the other hand, the leader of "Citizens for Fiscal Sanity," Dick Williams, opined that Amendment 3 "would limit the options of future generations and lead to higher taxes on sales and property."

Of the *Tax Foundation's* 10 "best states" in its index, six of them have no income tax: Alaska, Florida, Nevada, South Dakota, Texas, and Wyoming. The other state with no income tax, Washington, holds the number 11 position. New Hampshire and Tennessee, numbers seven and 15, respectively, are the only two states to tax only interest and dividends. The Index's "overall rank" takes into account a state's corporate, individual income, sales and unemployment insurance tax rankings.

### Georgia: Marginal income tax capped at 6%

Georgia voters approved constitutional Amendment #1, which prohibits the General Assembly from increasing the maximum state income tax above the current top rate of 6%.

Prior to Election Day, Americans for Tax Reform (ATR) reported that Republican State Senator David Shafter proposed the cap because it "helps increase our competitiveness by pointing out to businesses making expansion decisions that while other states could increase their rates tomorrow, our rates are constitutionally capped." University of Georgia

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professor Jeffrey Dorman agreed: "It's the credibility thing: If businesses feel like they can trust you, then they're more likely to create jobs in your community. So this cap signals to businesses, we promise we're not going to become New York or California or Illinois. We're going to stay a good place to do business."

In contrast, the Pew Charitable Trusts highlighted a different perspective from Wesley Tharpe, tax and economic policy analyst for the Georgia Budget and Policy Institute. He suggested that locking in a low tax rate might be bad for the state in the future. While recognizing that Georgia has embraced having low taxes, some of the lowest in the country, Mr. Tharpe also acknowledged the state's congested roads and underfunded healthcare and education systems.

The *Tax Foundation's* Index ranks Georgia at #36 overall, one notch lower than last year's ranking.

### Illinois: Nonbinding approval of a millionaire's tax

A post-election CNN.com story addressed the millionaire tax referendum question that was on the ballot in Illinois. It pointed out that Illinois voters favored the idea of imposing a 3% tax on personal income exceeding \$1 million, which would increase school funding.

The *Chicago Tribune* acknowledged that while this was merely a ballot question that does not carry the power of the law, the electorate supports the millionaire's tax despite a failed effort to amend the constitution by increasing income taxes for millionaires by the House Speaker Michael Madigan. Illinois currently imposes a flat income tax rate, and some Democrats have proposed altering the state constitution to allow for multiple sets of gradually higher rates, as is done in the federal income tax system.

The CNN.com story indicated that even if Speaker Madigan re-introduces the legislation, it is unlikely to go anywhere because newly elected Governor Rauner, a Republican, is not likely to back it.

The *Tax Foundation's* Index ranks Illinois # 31 overall. It explains that in 2011, Illinois sharply raised individual and corporate income taxes in an attempt to mitigate budget problems. What is not reflected in its 2015 rank is that the tax hikes are scheduled to be temporary and partially sunset at the beginning of tax year 2015.

Additionally, in 2015, the individual income tax is scheduled to decrease from 5% to 3.75%, and the corporate tax is scheduled to decrease from 9.5% to 7.75%.

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